

**RURAL WATER DISTRICT NO. 8  
LEAVENWORTH COUNTY, KANSAS**

**Financial Statements for the  
Years Ended December 31, 2015 and 2014  
And Independent Auditors' Report**

**RURAL WATER DISTRICT NO. 8  
LEAVENWORTH COUNTY, KANSAS**

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors and Members  
Rural Water District No. 8  
Leavenworth County, Kansas

We have audited the accompanying financial statements of Rural Water District No. 8 (District), Leavenworth County, Kansas, which comprise the statement of net position as of December 31, 2015 and 2014, and the related statement of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide (KMAAG). Those standards and KMAAG require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 8, Leavenworth County, Kansas as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Report on Supplementary and Other Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. However, management has elected to omit this information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The "Other Information" on pages 11 and 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, therefore, we express no opinion on it.

*Stephen M. Connelly, CPA, PC*

Kansas City, Missouri  
February 20, 2016



**RURAL WATER DISTRICT NO. 8  
LEAVENWORTH COUNTY, KANSAS**

**STATEMENTS OF NET POSITION  
DECEMBER 31, 2015 AND 2014**

<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 578,157	\$ 267,346
Certificates of Deposits	1,732,421	1,725,871
Accounts receivable	31,730 <i>397,871</i>	29,822
Prepaid expenses	3,436	3,729
Inventory	16,989	16,989
Total current assets	<u>2,362,733</u>	<u>2,043,757</u>
<b>CAPITAL ASSETS, NET</b>	<u>1,173,168</u> ✓	<u>1,204,169</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,535,901</u>	<u>\$ 3,247,926</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 18,654	\$ 17,083
Accrued liabilities	7,399	7,349
Total current liabilities	<u>26,053</u>	<u>24,432</u>
<b>NET POSITION:</b>		
Net investment in capital assets	1,173,168	1,204,169
Unrestricted	<u>2,336,680</u>	<u>2,019,325</u>
Total net position	<u>3,509,848</u>	<u>3,223,494</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 3,535,901</u> <i>3,535,920.22</i>	<u>\$ 3,247,926</u>

**RURAL WATER DISTRICT NO. 8**  
**LEAVENWORTH COUNTY, KANSAS**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
WATER SALES	\$ 403,324	\$ 423,570
COST OF WATER	<u>168,231</u>	<u>169,226</u>
Gross profit from water sales	<u>235,093</u>	<u>254,344</u>
OPERATING EXPENSES:		
Salaries	123,574	120,912
Utilities	9,330	9,575
Telephone & internet	3,165	3,100
Office supplies	8,739	7,882
Repairs & maintenance	29,157	24,556
Professional fees	9,458	16,643
Depreciation & amortization	75,154	71,175
Insurance	8,797	8,896
Mileage & miscellaneous	15,061	20,729
Total operating expenses	<u>282,435</u>	<u>283,468</u>
LOSS FROM OPERATIONS	<u>(47,342)</u>	<u>(29,124)</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest income	6,635	4,172
Late charges and other income	9,620	9,890
Other	268,982	627,353
	<u>285,237</u>	<u>641,415</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	237,895	612,291
BENEFIT UNITS AND AID IN CONSTRUCTION	<u>48,459</u>	<u>9,575</u>
CHANGE IN NET POSITION	286,354	621,866
NET POSITION, BEGINNING OF YEAR	<u>3,223,494</u>	<u>2,601,628</u>
NET POSITION, END OF YEAR	<u>\$ 3,509,848</u>	<u>\$ 3,223,494</u>

**RURAL WATER DISTRICT NO. 8**  
**LEAVENWORTH COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from members for water	\$ 401,416	\$ 416,949
Cash payments to suppliers for goods and services	(250,246)	(265,156)
Cash payments to employees for services	(123,574)	(120,912)
Net cash provided by operating activities	<u>27,596</u>	<u>30,881</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from sale of benefit units and aid in construction	48,459	9,575
Purchase of capital assets	(43,957)	99,151
Net cash provided (used) by capital and related financing activities	<u>4,501</u>	<u>108,726</u>
<b>NON CAPITAL FINANCING ACTIVITIES:</b>		
Miscellaneous non-operating income	<u>278,602</u>	<u>637,243</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Change in certificates of deposit	(6,523)	(1,004,068)
Interest received	6,635	4,172
Net cash (used) provided by investing activities	<u>112</u>	<u>(999,896)</u>
<b>NET CHANGE IN CASH AND EQUIVALENTS</b>	310,811	(223,046)
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<u>267,346</u>	<u>490,392</u>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<u>\$ 578,157</u>	<u>\$ 267,346</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (47,342)	\$ (29,124)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	75,154	71,175
Changes in:		
Accounts receivable	(1,908)	(6,621)
Prepaid expenses	293	(261)
Accounts payable	1,571	(2,283)
Accrued liabilities	(173)	(2,005)
Net cash provided by operating activities	<u>\$ 27,596</u>	<u>\$ 30,881</u>



**RURAL WATER DISTRICT NO. 8**  
**LEAVENWORTH COUNTY, KANSAS**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Organization - The Rural Water District (District) was established as a tax-exempt organization to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the district. The total number of customers at December 31, 2015 and 2014 were 842 and 827, respectively.
- b. GASB Statement No. 34 - The District follows GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This statement, known as the "Reporting Model" statement, affects the way the District prepares and presents financial information. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

***Management's Discussion and Analysis*** - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports. Management has elected to omit this information.

***Statement of Net Position*** - This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net position of the District will be broken down into three categories 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation*** - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

- c. Cash equivalents - For purposes of the statements of cash flows, the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.
- d. Accounts receivable - The District reads meters between the 25<sup>th</sup> and the 27<sup>th</sup> of each month and statements are sent out the last day of the month. Payments for water services are due the 18<sup>th</sup> day of the month and will be subject to a \$10 late charge if not paid.
- e. Inventory - Inventories consist primarily of meters, pipe and line maintenance material. Inventories are stated at the lower of cost or market. Cost is determined using the first in, first out method.
- f. Capital Assets - Capital assets are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.



- g. Income taxes - The District is considered a tax-exempt entity and is not subject to income taxes at either the federal or state level.
- h. Benefit Units - Benefit units are rights that entitle the holder to water service. Benefit units are presently sold for \$4,000 and are included in the statement of activities.
- i. Aid in Construction - Aid in Construction represents contributions from the members for line extensions and are included in the statement of activities.
- j. Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## 2. CASH AND INVESTMENTS

At December 31, 2015 and 2014, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name. The following represents the District's cash and certificates of deposit:

			2015	2014
Cash and cash equivalents:				
Citizens Savings & Loan Assn - checking			\$ 396,813	\$ 106,087
Mututal Savings Assn - money market			<u>181,344</u>	<u>161,259</u>
			<u>\$ 578,157</u>	<u>\$ 267,346</u>
Certificates of deposit:				
	Maturity Date	Interest Rate		
Citizens Savings & Loan Assn	Sep 2016	0.40%	\$ 204,792	\$ 203,975
Citizens Savings & Loan Assn	Nov 2016	0.40%	318,155	317,044
Citizens Savings & Loan Assn	Sep 2016	0.40%	1,005,239	1,001,228
First State Bank	Sep 2016	0.30%	<u>204,235</u>	<u>203,625</u>
			<u>\$ 1,732,421</u>	<u>\$ 1,725,871</u>

### 3. CAPITAL ASSETS

	2015	2014
Rural Water System	\$ 2,101,920	\$ 2,078,944
Building	57,934	42,707
Vehicle	24,072	24,072
Equipment	14,247	8,300
Tower	<u>433,863</u>	<u>433,863</u>
	2,632,036	2,587,886
Less accumulated depreciation	<u>1,458,868</u>	<u>1,383,717</u>
	<u>\$ 1,173,168</u>	<u>\$ 1,204,169</u>

Total depreciation expense in 2015 was \$75,154.

#### 2015 Roll forward of capital assets:

	Beginning Balance	Additions	Disposals	Ending Balance
Rural Water System	\$ 2,078,943	\$ 22,977	\$	\$ 2,101,920
Building	42,707	15,226		57,933
Vehicle	24,072			24,072
Equipment	8,300	5,947		14,247
Tower	<u>433,863</u>			<u>433,863</u>
	<u>\$ 2,587,886</u>	<u>\$ 44,150</u>	<u>\$ 0</u>	<u>\$ 2,632,036</u>

**2014 Roll forward of capital assets:**

	Beginning Balance	Additions	Disposals	Ending Balance
Rural Water System	\$ 2,191,939	\$ 3,999	\$ 116,995	\$ 2,078,943
Building	42,707			42,707
Vehicle	24,072			24,072
Equipment	8,300			8,300
Tower	433,863			433,863
	<u>\$ 2,700,881</u>	<u>\$ 3,999</u>	<u>\$ 116,995</u>	<u>\$ 2,587,886</u>

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	Capitalization Policy	Depreciation Method	Estimated Useful Life
Building	5,000	Straight Line	10 years
Rural Water System	5,000	Straight Line	40 years
Tower	5,000	Straight Line	40 years

The District will use the above to determine capitalization but can capitalize items below the threshold at their discretion.

**4. ACCRUED LIABILITIES**

Salaries and wages payable	\$ 7,399
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**5. CONCENTRATION OF CREDIT RISK**

The District is engaged in the sale of water to customers located in Leavenworth County in Kansas. The District grants credit to those customers and requires no collateral.

**6. WATER PURCHASE CONTRACT**

The District does not have a contract to purchase water through the Leavenworth Water Department, but purchases as demand dictates. During 2015, the District purchased 60,147,000 gallons and paid an average of \$2.80 per 1,000 gallons.



## 7. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended December 31, 2015, except the District did not pay interest on meter deposits in accordance with K.S.A 12-822.

## 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, and injuries to employees. The District manages these various risks of loss through insurance policies through Employers Mutual Casualty Company. See supplementary information for details of the various insurance policies.

## 9. COMPENSATED ABSENCES

The District does not have any formal policies regarding vacation and sick leave and as a result no accruals or adjustments have been recorded to the financial statements.

## 10. LITIGATION

The District was not aware of any litigation during 2015.

## 11. REVENUES AND EXPENSES

The District recognizes revenue from water sales at the time meters are read. The District does not estimate the usage from the meter readings at the end of the month but uses actual meter readings. This practice has been consistently applied. Late charges are recognized when the District is preparing monthly utility bills and the member is past due in accordance with the by-laws of the District. Expenses are recognized in the period in which the service was incurred or product received.

## 12. TRANSFER OF SERVICE AREA

During 2014 the District executed a formal agreement for the transfer of particular service area, service and related assets to Lan-Del. The agreement called for a one time payment of \$727,500 and other compensation under certain conditions, if met. Additionally, on October 8, 2014 the District released a small section of the District service area to Leavenworth Co. Rural Water District No. 5 for no compensation.

## 13. SUBSEQUENT EVENTS

The District has received notice that the City of Leavenworth, KS is increasing their wholesale rates by 2% to its wholesale customers, effective April 1, 2016. Management has evaluated subsequent events from the date of the financial statements through February 20, 2016, the date the financial statements were available to be issued, and determined there are no other items to disclose.

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**RURAL WATER DISTRICT NO. 8**  
**LEAVENWORTH COUNTY, KANSAS**

**INSURANCE IN FORCE**  
**YEAR ENDED DECEMBER 31, 2015**

Policy Type	Expiration Date	Company	Annual Premium	Amount of Coverage	Description
General Liability	5/9/2016	Employers Mutual Casualty Company (EMCC)	\$1,883	\$1,000,000	Aggregate limit Property damage limit 500,000 Personal injury limit 500,000 Advertising injury limit 50,000 Fire damage legal liability 5,000 Medical expense
Property	5/9/2016	EMCC	2,304	469,500	Pump house and tanks 75,000 Buildings and personal property
Workers Compensation	5/9/2016	EMCC	3,140	500,000	Bodily injury by accident 500,000 Bodily injury by each employee 500,000 Bodily injury by policy limit
Automobile	5/9/2016	EMCC	889	500,000	Liability
Employee Dishonesty	5/9/2016	EMCC	394	200,000	Liability
Inland Marine	5/9/2016	EMCC	200	10,000	Electronic data processing
Linebacker	5/9/2016	EMCC	838	1,000,000	Aggregate limit 1,000,000 Each loss

**RURAL WATER DISTRICT NO. 8  
LEAVENWORTH COUNTY, KANSAS**

**SCHEDULES OF STATISTICAL INFORMATION  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

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	<b>2015</b>	<b>2014</b>
Gallons sold	53,689,650	54,280,000
Gallons purchased	60,147,428	60,853,424
Water loss percentage	10.7%	10.8%
Number of benefit units	842	827
Average monthly water usage per customer	5,314	5,470
Average monthly water sale per benefit unit	\$ 39.92	\$ 42.68
Average monthly costs and expenses per benefit unit	\$ 44.60	\$ 45.62
Cash per benefit unit	\$ 2,744	\$ 2,410